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निर्देश पूर्व/दक्षिण एशिया विश्लेषण केंद्र  
ادارة التحليل لشؤون الشرق الاوسط و جنوب آسيا  
המחלקה לענייני המזרח התיכון ודרום אסיה  
اداره تجزيه و تحليل خاور ميانه و جنوب آسيا  
Office of Near Eastern and South Asian Analysis  
Directorate of Intelligence

10 June 1986

DDI:

The attached material may  
be useful background material for  
the CPPG meeting tomorrow on Syria.  
Some of it you have seen before  
but I thought you might want to  
have the chance to review again.

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## Syria: Implications of Economic Decline

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The economic crisis in Syria has begun to hurt all segments of Syrian society, but the Assad regime seems unwilling to take the necessary steps to reverse the decline. Damascus's ineffective economic policies and excessive military expenditures have exhausted government finances, and the black-market crackdown in January has curtailed Syria's strong underground economy. The impact of commodity shortages and surging inflation on the population has been uneven, with fixed-income workers hit hardest by price increases.

Although economic problems place new pressures on the regime, President Assad has sufficient power to control the political impact. Syria's strong and ruthless internal security apparatus, combined with extensive price subsidies on food staples, will discourage popular revolts for the time being. Assad's biggest potential economic challenge may be to retain control over Syria's powerful military leadership if economic constraints eventually force him to cut military spending.

### Economic Conditions Worsening

The Syrian economy, in terrible shape for the past five years, has taken a sharp downturn in the past six months. An expanding military budget—over half of current expenditures in 1985—and shrinking domestic output since 1982 have wrecked government finances. The government's severe foreign exchange shortage has limited imports of food and other consumer products and inputs for public- and private-sector businesses. Shortages of necessities have forced consumers and businesses to rely on smuggled goods and to circumvent official channels, depriving the government of vital foreign exchange. In the past six months, the Syrian population has witnessed a rapid erosion in its purchasing power as prices have risen 30 to 100 percent. There are several reasons for the economy's inflationary spiral:

- The deterioration of the Syrian pound in offshore or illegal markets has raised prices for illegal imports.

- Official prices have risen as subsidies have become too costly.
- Embassy reporting indicates some hoarding in anticipation of further price increases.

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Foreign aid payments from oil-exporting donors have fallen off with the slackening of the world oil market and general Arab dissatisfaction with Damascus's regional policies. Interruptions of oil shipments from Iran have forced Syria to purchase crude oil for its refinery operations on the spot market, further cutting into its foreign exchange. Declining worker remittances from the Gulf states have compounded Syria's financial problems.

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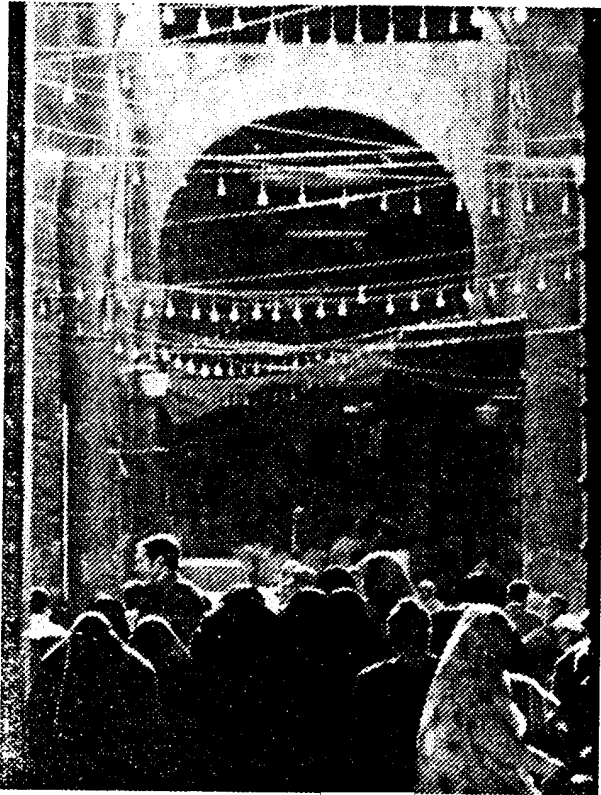
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### The Government's Response

The Syrian Government has taken few steps to shore up domestic finances and reverse the decline of the pound. In late January and early February the government—panicked by the pound's 25-percent drop in five weeks—arrested 1,500 moneychangers to reduce speculation and restrict capital flight. In March the government intensified its crackdown by closing 154 shops in Damascus for dealing in smuggled goods and other illegal activities. In addition, Prime Minister Kasm issued a decree—almost certainly endorsed by Assad—prohibiting imports from Lebanon and tightening border controls to restrict travel of private citizens to Lebanon. The decree was probably aimed at pressing the recalcitrant Lebanese Christians who profit from illegal exports to accept the Syrian-sponsored Tripartite Agreement, but the result was to curb imports vital to Syria's economy. To cut government spending and encourage conservation, official prices on domestic products and legal imports such as tires, steel, fuels, sugar, and coffee have been raised, but no increase in food staple prices has been announced.

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Bazaar: private consumption curbed [redacted] Arabia: The Islamic Review

Economy Minister 'Imadi has tried to stimulate the private sector, but his influence is limited and he is opposed by the traditional Ba'th Party establishment led by Prime Minister Kasm. 'Imadi has devalued the tourist exchange rate to 8.25 pounds to the US dollar—versus the official rate of 3.90 to the dollar—and shifted most legal commercial transactions to the lower parallel rate of 5.40 to the dollar, which will stimulate exports. In addition, he directed an unpublicized change that allowed proceeds from agricultural exports to be redeemed at the tourist rate, which gives farmers a higher return. Despite his good intentions, Imadi's reforms have made little impact. Assad's support is necessary for any major policy shift, and, thus far, he has shown no sense of urgency. [redacted]

Although Assad has devoted some attention to the economy in recent speeches, he appears relatively unconcerned over Syria's economic crisis, and his

private statements indicate he probably has a distorted view of the situation. In a meeting with US officials in April, Assad offered a positive view of Syrian economic developments and gave no indication of recognizing the extent of the recession, according to Embassy reporting. The economy is a low priority for Assad, and reform is usually limited to vague calls for greater "sacrifice" and ending "corruption." [redacted]

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#### Syrians Feel the Pinch

Syria's economic crisis has touched all segments of Syrian society, but its impact has been uneven. The smaller shopkeepers and artisans and low-level government workers with few means of supplementing their incomes have been hurt the most by commodity shortages and inflation. Many of the privileged groups whose support is crucial to the regime—businessmen, bureaucrats, and especially the military—have also experienced falling living standards. [redacted]

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Residents of Damascus have suffered disproportionately in the present crisis, especially from the surging inflation. Bitterness is increasingly apparent in Damascus. Consumers face a shortage of vital imported goods, and business is depressed from a lack of raw materials. Smuggling has resumed, but only on a limited scale. The housing shortage has worsened and will continue in the near term as building projects are suspended for lack of government funds. Even Assad's palatial residence near Damascus remains unfinished. In addition to sewage, water, and transportation problems, electricity around Damascus is shut off for two or more hours a day [redacted]

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Government workers—mostly based in Damascus—and others with a fixed income have seen their purchasing power erode significantly. The US Embassy reports that inflation averaged at least 10 to 20 percent since 1983 before accelerating over the past six months. Meanwhile, public-sector employees received 10- to 25-percent pay increases in late 1985—their first in five years. [redacted]

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The urban population outside Damascus has fared relatively better, although our reporting is limited outside the capital. Like Damascus, the larger cities—Latakia, Aleppo, and Homs—depend on imports, but there is apparently less concern with inflation and the black-market crackdown than in Damascus, possibly because government efforts have been less intense than in the capital. Moreover, outside Damascus more citizens are in the private sector and have greater autonomy to raise prices and incomes to offset inflation [redacted]

Many commodities in short supply in Damascus are practically unobtainable in cities such as Aleppo. In our view, this is partly because of the capital's higher priority for the distribution of goods. In addition, consumer goods smuggled from Lebanon are less likely to reach cities farther from the border, such as Aleppo. Northern Syria's economic problems are worsened by severe shortages of water and electricity from drought and Turkey's diversion of some branches of the Euphrates River to flow inside its own territory. Several hydroelectric generators located along the Euphrates are not operating because of lack of water [redacted]

The military elite, who supplement their incomes by controlling smuggling out of Lebanon, have had their activities largely curtailed in the recent crackdown. We believe they will seek to circumvent reforms aimed at promoting legal trade through official channels. The US Embassy in Damascus reports that Assad's crackdown was resisted by elements in the Security Services. In addition, some members of the Syrian High Command believe the reforms may cause problems with senior military officers who control smuggling, [redacted]

The small minority of wealthy Syrians are also threatened by government measures to conserve foreign exchange. In February air fares were increased 61 percent and the automobile sales tax was increased 400 percent. In addition, there was speculation over a similar increase in real estate taxes and a higher exit fee—equivalent to \$90—for Syrians traveling abroad. [redacted]

The rural poor have probably been hurt the least by the recent downturn. They are less dependent on imports than the urban population and less affected by inflation. Moreover, many in the countryside have benefited over the past decade from extensive government efforts such as irrigation projects, rural electrification, and paved roads. As a result, the rural poor probably remain an important base of support for the Ba'th Party and strong backers of the Assad regime. Projects aimed at expanding the economic infrastructure and improving living conditions in the countryside also help stem the flow of population into the cities. [redacted]

#### Assad's Position Still Secure

Despite increasing criticism of the regime's economic management, President Assad's internal position remains strong. Popular indignation has been directed at the military, the police, and Ba'th officials, as well as others who control smuggling and feed off public funds. Economy Minister 'Imadi also faces growing criticism for his apparent role in causing the price increases [redacted]

Despite his strong position, Assad is conscious of the possible political fallout from an economic crisis. He is doubtless aware that similar economic crises have led to political unrest in many Arab states. For the near term, Assad will remain content to call for greater austerity rather than risk the effects of reform. The much needed exchange rate realignment has been approached slowly, probably because of its inflationary potential for food and other imports. Although Syria's strong and ruthless internal security apparatus makes bread riots unlikely, bread prices are kept low through extensive subsidies—about 2.5 billion pounds in 1985. There is no evidence linking the economy's problems to recent car bombings in Syrian cities. These are the work of Syria's foreign enemies, according to reliable reports [redacted]

Threats to Assad's power from the military and police apparatus resulting from the economic crisis are unlikely. Assad has erected several competing security services that depend on him alone for direction. The

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military leadership engaged in smuggling has the economic strength to weather the setback imposed by Assad's recent crackdown. It will profit when smuggling inevitably returns to its former level. Assad's biggest challenge in handling the military could come if economic constraints force him to cut the military budget and reduce arms purchases. Assad would then have to pacify and control the large network of profit takers associated with the military establishment [redacted]

The US Embassy in Damascus reports that Assad is resisting cutbacks in military spending. Over the past decade, Syria has devoted a large share of its resources to arms purchases and overextended itself through massive long-term debts to the Soviet Union. We believe Assad is so determined to achieve strategic balance with Israel that the Syrian leader will do his utmost to avoid reducing military expenditures [redacted]

#### Outlook

We believe Assad will take additional limited steps to spur the economy but will hold to the traditional socialist path. Efforts to reform the economy and free the private sector will probably fall short as entrenched military leaders and bureaucrats fight to retain privileges. Plans of a US firm to boost crude oil production at Syria's Thayyem field to more than 50,000 barrels per day by September have buoyed Assad's confidence that Syria will become less dependent on Iran and the spot market for oil supplies. Syria's profits from the increased output, however, will not erase the regime's economic problems. [redacted]

The black market for imports and moneychangers—in Syria and in Amman or Beirut—will remain integral to the Syrian economy. The black market's pervasiveness is reflected by the numerous government-run companies sanctioned by the Prime Minister's office to make illegal transactions up to the day arrest orders were issued, according to US Embassy reporting. The crackdown has already been eased as most of the currency dealers arrested have been released and resumed business, although on a

limited scale. The net effect of the arrests has been to erode confidence in the government, which should stimulate capital flight [redacted]

The Syrian economy will probably deteriorate over the next year. Although the worsening economic situation could prompt unrest among several groups, expectations in most of the population remain low. Assad's hold on the government and the military also appears firm, and his security apparatus is strong enough to discourage dissidence. [redacted]

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29 May 1986

## MEMORANDUM

SUBJECT: Syrian Strategy and Tactics Against Israel

1. Syria is preparing for war, seeking a "strategic balance" to force Israel into returning the Golan Heights and dramatically alter the course of the Arab-Israeli conflict. While President Assad is under no immediate pressure to force a showdown with Israel, he is in poor health and recovery of the Golan Heights lost in 1967--when he was Defense Minister--and securing major concessions on the Palestinian issue are of considerable psychological and political importance to him. Assad believes that US support for Israel makes a satisfactory negotiated settlement impossible, and thus he sees the use of force--or at least the threat implicit in Syria's military buildup--as his only viable option. In planning for war, however, Assad calculates that Syria will not be strong enough in the foreseeable future to unilaterally inflict a strategic defeat on Israel. [REDACTED]

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Force Building

2. Egypt's conclusion of a peace treaty with Israel in the late 1970s led President Assad to decide that Syria must be prepared to fight Israel alone in the next war, and he authorized a major expansion and modernization of his armed forces--primarily the army--which has been liberally supported by the USSR. The 1982 war in Lebanon reinforced this trend and spurred improvement of the air and air defense forces focused on upgrading air defense radar systems, acquiring more sophisticated interceptor and ground attack aircraft, and obtaining more and better surface-to-air missiles. Because of Assad's persistence, Syria has essentially attained overall numerical parity, but Israel still enjoys qualitative superiority--particularly in fighter and ground attack forces. [REDACTED]

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3. Before launching an attack against Israel, Syria wants to reduce Israel's advantage in mobile warfare and to prevent the Israel Air Force from rapidly attaining air superiority, which would lead to the isolation of the Golan front and open Damascus to attack. [REDACTED]

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[REDACTED]

Although the Soviets would balk at supplying the SA-10, a new strategic air defense system that is replacing obsolescent SA-2s and SA-3s in the USSR, they may export the SA-11, a new tactical system that is better than the SA-6 which is thoroughly familiar to the Israelis. [REDACTED]

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4. Assad probably will essentially complete reorganizing and expanding his forces--especially the army--before launching an attack against the Golan Heights. A

[REDACTED]

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5. President Assad probably will emphasize additional training before launching an attack against Israel. The partial Israeli troop withdrawal from Lebanon last year enabled Syria to remove three of its divisions and concentrate on restoring operational effectiveness eroded by prolonged duty in that country. For example, the Third Armored Division--long considered Syria's best because of its cohesiveness--did not conduct a major field exercise from 1982 until December 1985 when it engaged in the largest maneuvers in recent Syrian history. [REDACTED]

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#### Assad's Aims

6. We believe President Assad is planning for a quick strike to recover all or part of the Golan Heights and to call immediately for a standstill ceasefire--much as he wanted to do in 1973 but was dissuaded by Sadat's desire to exploit his successful crossings of the Suez Canal. In so doing, Syria probably wants to fight as much as possible on the defensive--which requires less skill and does not place a premium on having the most modern equipment. Assad probably is counting heavily on achieving tactical surprise and on using the better-trained, better-equipped, and loyal forces--the Third Armored Division and the Ba'th Corps--to counter Israeli breakthroughs. Syria probably is banking that superpower involvement will force a cease-fire before the Israelis can fully mobilize and deploy their ground forces. [REDACTED]

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7. In planning for a strike on the Golan Heights, we believe that Assad would reckon that any such attack would result in a large-scale Israeli riposte aimed at destroying as much of his armed forces as possible and threatening Damascus. A successful counterattack of this size would risk the survival of his minority Alawite regime and Syria's territorial integrity, but we believe that Assad is determined to establish a new political basis for negotiating with Israel. While he undoubtedly would prefer to regain lost territory and champion the Palestinian cause through a combination of threats, brinksmanship, and diplomacy, Assad may conclude that his best chance lies in attacking after his forces have been selectively supplied with some new equipment and are better-organized and -trained. [REDACTED]

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### Short-term Policies

8. While President Assad continues to refine plans for war against Israel, he must work to limit the affects of, if not solve, some vexing problems that could cut short his drive for "strategic balance". Although Assad probably cannot do much in the near term to boost Syria's flagging economy except to push for expanded domestic oil production and possibly implement some modest economic reforms, he can make progress on other domestic problems. By leaning on his security forces, Assad probably can reduce the odds of a new round of bombings in Damascus and other cities. By working on key supporters of his regime, Assad may be able to strike a balance between the opponents and followers of his brother Rif'at, who is in self-imposed exile. [REDACTED]

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9. As Syria continues to build up its armed forces, President Assad knows he must avoid a major confrontation with Israel--including one in Lebanon where Damascus is reclaiming territory abandoned by Israel last year. [REDACTED]

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10. The Syrians almost certainly will continue to proceed cautiously, probing the limits of Israeli forbearance. Before moving south Damascus may try to ensure it can support such a deployment by increasing the size of its force in the Bekaa Valley. The Syrians might send some of the troops that were concentrated near Beirut in January, but they would have to shelve--at least temporarily--any idea of forcing the Christians into accepting the tripartite accord. If Damascus chose instead to send regular units from Syria into the Bekaa, it would increase the odds of an Israeli military response. [REDACTED]

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11. Despite the risks, Syria clearly intends to reduce the Israeli presence in Lebanon. It wants to eliminate the pro-Israeli Army of South Lebanon, preferably through proxies, and control the pace and type of attacks in southern Lebanon and northern Israel. In the event of a major clash, the Syrians particularly want to keep the Israelis from advancing rapidly up the Bekaa Valley threatening Damascus, Syria's lines of supply, and the Alawite heartland. [REDACTED]

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